

Message Text

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PAGE 01 LONDON 13475 01 OF 02 162052Z

67

ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 AID-20 CIAE-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 XMB-07 OPIC-12 SPC-03 CIEP-02

LAB-06 SIL-01 OMB-01 NSC-10 SS-20 STR-08 CEA-02

DODE-00 PM-07 H-03 L-03 PA-04 PRS-01 USIA-15 ACDA-19

IO-14 SCEM-02 INT-08 SCI-06 NEA-10 SEC-03 DRC-01 /249 W

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R 161956Z NOV 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5656

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

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DEPARTMENT ALSO PASS FRB

TREASURY FOR F. LISLE WIDMAN

E.O. 11652: N/A

TAGS: EFIN, UK

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PAGE 02 LONDON 13475 01 OF 02 162052Z

SUBJECT: GOVERNMENT REAFFIRMS BASIC ECONOMIC POLICY

REF: 1) LONDON 13361; 2) LONDON 13290; 3) LONDON A-1287
OF 10/25/73

BEGIN SUMMARY: IN THE FACE OF THE THREATENED ENERGY CRISIS CREATED BY OIL PRODUCTION CUTBACKS IN MIDEAST AND COAL PRODUCTION CUTBACKS AT HOME, THE COAL MINERS CHALLENGE TO STAGE 3, THE RECORD TRADE DEFICIT IN OCTOBER, THE TIGHTENING OF MONETARY POLICY ON TUESDAY, INCREASING PRESSURE WITHIN THE CONSERVATIVE PARTY FOR DEFLATIONARY FISCAL POLICY, AND A PRECIPITOUS FALL IN STOCK PRICES YESTERDAY, PRIME MINISTER HEATH AND CHANCELLOR OF THE EXCHEQUER BARBER REAFFIRMED BASIC GOVERNMENT ECONOMIC POLICY ON NOVEMBER 15 BY STATING THAT THERE WOULD BE NO "AUTUMN BUDGET" (TAX MEASURES), THAT THE RECENT GOVERNMENT ACTIONS DO NOT AMOUNT TO THE FIRST STEP OF A "STOP", AND THAT THE GOVERNMENT IS STILL PLEDGED TO GROWTH.
END SUMMARY.

1. PRIME MINISTER HEATH, APPEARING ON TELEVISION ON THURSDAY EVENING REAFFIRMED WHAT JAMES PRIOR, LEADER OF THE COMMONS, HAD SAID EARLIER IN THE DAY: THAT THERE WOULD BE NO "AUTUMN BUDGET." THIS STATEMENT WAS IN RESPONSE TO QUESTIONS ABOUT THE POSSIBILITY OF TAX INCREASE AND AN OVERALL SHIFT IN GOVERNMENT POLICY FROM AN ACCENT ON GROWTH TO DEFLATION OF THE ECONOMY TO PREVENT INCREASED INFLATIONARY PRESSURES AND A BALANCE OF PAYMENTS CRISIS. CHANCELLOR BARBER IN SPEAKING TO THE 1922 COMMITTEE, A CAUCUS OF CONSERVATIVE BACKBENCHERS, AND LATER AT A DINNER GIVEN BY THE AMERICAN BANKS OF LONDON ECHOED THE PRIME MINISTER'S THEME AND EMPHASIZED THAT THE RESTRICTIVE MONETARY MEASURES TAKEN ON TUESDAY DO NOT INDICATE A POLICY SWITCH. THE CHANCELLOR SAID THAT THE MONETARY MEASURES WERE TAKEN: 1) TO PREVENT A DEPRECIATION OF STERLING WHICH WOULD HAVE ADDED TO INFLATIONARY PROBLEMS; 2) TO RESTRAIN THE GROWTH OF CREDIT; AND 3) BECAUSE OF THE INDUSTRIAL UNREST, PARTICULARLY THE MINERS BAN ON OVERTIME WHICH IS EXACERBATING THE ENERGY SITUATION. BARBER EMPHASIZED, HOWEVER, THAT HE IS FLEXIBLE AND WILL MEET ANY EVENTUALITY WITH WHAT LIMITED OFFICIAL USE

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PAGE 03 LONDON 13475 01 OF 02 162052Z

HE CONSIDERS THE APPROPRIATE POLICY.

2. IN THE 1922 COMMITTEE MEETING, A GROUP OF FISCALLY CONSERVATIVE TORY BACKBENCHERS CALLED FOR A DEFLATIONARY FISCAL POLICY BUT IT WAS POINTED OUT THAT TAX RECEIPTS WERE HIGHER THAN EXPECTED IN THIS FISCAL YEAR (FROM FISCAL DRAG) AND THE PUBLIC BORROWING REQUIREMENT MIGHT BE SLIGHTLY REDUCED FROM THE LEVELS EXPECTED EARLIER IN

THE YEAR. (THE GOVERNMENT HAD FORESEEN A PUBLIC BORROW-
ING REQUIREMENT OF OVER FOUR BILLION POUNDS DURING THIS
FISCAL YEAR; 800 MILLION OF THIS RESULTED FROM THE
CHANGEOVER TO VAT.) MOREOVER, NEXT FISCAL YEAR A
SIGNIFICANT REDUCTION IN PUBLIC EXPENDITURE GROWTH
SHOULD MEAN A MUCH REDUCED BORROWING REQUIREMENT.

3. COMMENT: HEATH AND BARBER MAY HAVE BEEN INFLUENCED
TO REAFFIRM THEIR BASIC POLICY BY A SELLING WAVE ON THE
LONDON STOCK EXCHANGE YESTERDAY WHICH CUT THE PAPER VALUE
OF STOCKS BY THREE PERCENT OR OVER ONE BILLION POUNDS.
PRESS SPECULATION IS THAT THIS OCCURRED AFTER RUMOURS OF
CHANCELLOR BARBER'S RESIGNATION, A DEFLATIONARY BUDGET
AND A TAX INCREASE HAD CIRCULATED THROUGH THE FINANCIAL

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PAGE 01 LONDON 13475 02 OF 02 162024Z

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COMMUNITY. THESE RUMOURS WERE EMPHATICALLY DENIED.

4. THE INFORMATION REVEALED IN YESTERDAY'S 1922
COMMITTEE MEETING THAT THE PUBLIC BORROWING REQUIREMENT
FOR THE GOVERNMENT COULD BE LESS THIS YEAR THAN ORIGIN-
ALLY ESTIMATED (AND CERTAINLY WILL BE MUCH LOWER NEXT
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PAGE 02 LONDON 13475 02 OF 02 162024Z

YEAR) WOULD SEEM TO PLACE THE GOVERNMENT IN AN
ADVANTAGEOUS POSITION ON THIS ISSUE. PRESENT FISCAL
POLICY MAY HAVE A MORE DEFLATIONARY IMPACT ON ECONOMIC
ACTIVITY THAN INTENDED THIS YEAR WHILE NOT PUBLICLY
WEAKENING BUSINESS CONFIDENCE IN CONTINUED GROWTH, AS NEW
DEFLATIONARY FISCAL MEASURES WOULD. FISCAL POLICY IN
1974 WILL CERTAINLY BE LESS STIMULATIVE.
THE GOVERNMENT MAINTAINS -- AND HEATH REPEATED THIS LAST
NIGHT -- THAT THERE ARE OPPORTUNITIES TO BE SEIZED IN
EXPORTS BY BRITISH INDUSTRY AND THAT IT IS NECESSARY TO
MAINTAIN A CONFIDENT ATMOSPHERE SO THAT PRIVATE INVEST-
MENT WILL CONTINUE AT HIGH LEVELS AND RESOURCES WILL BE
DIVERTED INTO EXPORTS. NO FIGURES HAVE BEEN
GIVEN AND WE CANNOT JUDGE YET HOW MUCH REDUCED THE PUBLIC
BORROWING REQUIREMENT WILL ULTIMATELY BE.

5. IT APPEARS TO US THAT BARBER, AT LEAST, HAS LEFT ROOM
FOR WHATEVER TAX AND EXPENDITURE MEASURES ARE WARRANTED
IF THE SITUATION WORSENS AS A RESULT OF EITHER AN INFLA-
TIONARY WAGE SPIRAL RESULTING FROM MINERS-GOVERNMENT
CONFRONTATION AND/OR PRODUCTION CUTS FROM THE ENERGY
CRISIS. AT PRESENT, HOWEVER, WITH THE FULL EXTENT OF
ENERGY SHORTAGE UNKNOWN, GOVERNMENT INTENDS TO REMAIN ON
ECONOMIC COURSE SET OUT IN BARBER'S MANSION HOUSE SPEECH
(SEE REF 3).

6. DEFLATION MAY BE IMPOSSIBLE TO AVOID, EITHER AS
NECESSARY TO DAMPEN INFLATIONARY PRESSURES OR AS THE
RESULT OF THE ENERGY SHORTAGE. THE OUTCOME OF THE COAL
MINERS CONFRONTATION WITH THE GOVERNMENT WILL BE ONE KEY
ELEMENT IN DETERMINING THE DIRECTION THAT FISCAL
POLICY (AND THE ECONOMY) WILL TAKE. IF PRODUCTION IS

RESUMED WITH A SETTLEMENT THAT IS WITHIN STAGE 3 LIMITS,
IT APPEARS THAT THE GOVERNMENT WILL CONTINUE WITH ITS
PRESENT POLICY. A STRIKE OR AN INFLATIONARY SETTLEMENT
(OUTSIDE STAGE 3 LIMITS) WOULD PUT PRESENT POLICY IN
JEOPARDY, HOWEVER.

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